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The Province of Alberta

IN THE MATTER OF "THE NATURAL GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into Scheme to be adopted for Gathering, Processing and Transmission of Natural Gas in Turner Valley

G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

Session:

CALGARY, Alberta September 11th, 1945

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I N D E X

VOLUME 37

September 11th, 1945.

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"necessary to complete the above work, and shall pay all bills therefor."

Then we have paragraph 12, "Gentry shall install in the 8" pipe line four 8-inch gate valves with 2-inch blowoff Connections on either side of 8-inch said valves to face upwards and equippped with bull plugs, at points designated by B-A."

And 13, "Drips and Syphon bleeder drips shall be installed in the pipe line at points to be designated by B-A. Fabrication and installing drips shall be extra."

Now then Gentry is to provide, by paragraph 19, certain insurance, that is Workmen's Compensation, Public Liability and Public Property damage. Then in paragraph 20 I notice this, that the B-A is to make all necessary arrangements to permit Gentry's men to enter Canada to complete this work and return to the United States. Now having regard to these various provisions you now, I take it, have no doubt that the unit prices quoted in the Gentry contract involved the bringing of all machinery and equipment from the United States and all the labor from the United States and returning that machinery, equipment and labor to the United States. That is correct is it not?

A I would not say that is necessarily true, no. I do not know how much he brought in and how much he had here before he started. That just provides a means of bringing equipment in and men and taking them out. He bid on this work. It is presumed that the British American made a favorable contract when they made it. They probably would have gotten it done somewhere else if they had been able

to get it done cheaper. He was doing the work at a unit price and his profit depended on doing the work cheap. I do not think he took any measures which would unnecessarily increase the cost of the work.

Q That is your view of it, is it?

A Well, that is my view of it, yes.

Q Were you aware of the fact there was not available labor, machinery and equipment to do this work quickly in Turner Valley or in Alberta?

A Well I do not know anything about that.

Q What?

A I do not know anything about that.

Q THE CHAIRMAN: Suppose, Mr. Teis, for the moment that you assume, just assume that the Gentry people were not in Canada, had no equipment in Canada and then assume further that they brought their machinery, their equipment and their crew of men from the United States to Canada for the purpose of doing this work. If you just assume that then I think perhaps Mr. Blanchard can go on from that point.

A All right, sir.

Q MR. BLANCHARD: Now if you had assumed that when you were making your appraisal would you have made any allowance at all in your unit cost of all those factors in the unit cost relating to the import of machinery and labor and then returning it to the United States?

A No, I would not.

Q You would not, all right. Do you know what labor was being paid in the United States in the gas fields for the type of work done by the Gentry people in Turner Valley under this contract?

A I know roughly, yes.

Q Well what was it?

A I imagine a common laborer was getting somewhere around 75 cents an hour on that type of work.

Q 75 cents an hour?

A Down in the Mid-Continent area, that would be about right.

Q At that time?

A Yes.

Q And that would be in American funds?

A Yes.

Q All right. If you had not had any Gentry contract, is that the basis upon which you would have allowed for labor if you had been appraising this pipe here on the basis of Canadian labor being used?

A Well if I had not had the Gentry contract, I probably would have made investigation of the labor costs and what conditions were that would be involved in constructing this work.

Q Exactly. But you did not do that?

A No, I did not feel it was necessary to do that.

Q Included in that unit cost was their profit, of course, that is Gentry's profit?

A Oh yes.

Q Exactly. And included in the cost is the cost of installing not only the pipe itself but the fittings with the exception of the drips which were to be extra?

A These fittings involved only a few main line gate valves which were necessary to lay at the time the main line was laid, as I understand it, and I do not think that is of any consequence.

Q. Yes.
Mr. Mr. Mitchell.

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I know you.

Will you?

I imagine a common laborer was taking overtime work 72 cents an hour on that type of work.

Q. To cents an hour?

A. Now in this Mid-Continent area. That would be about right.

Q. At that time?

A. Yes.

Q. Who else would be in American Pipe?

A. Yes.

Q. All right. If you had not had any penalty contract, in that case from April 1, you would have allowed for a bonus if you had been expediting this pipe here on the basis of Canadian labor costs?

A. Well if I had not had the penalty contract, I probably would have made investigation of the labor costs and what conditions were that would be involved in constructing this line.

Q. Exactly. But you did not do that?

A. No, I did not feel it was necessary to do that.

Q. Included in that unit cost was their profit, of course, that is contract price?

A. Yes.

Q. Yes. And included in the cost is the cost of installing not only this pipe itself but the fittings and the excavation of the ditch which were in addition?

A. Yes. Little was involved only a few small line valves.

Q. Was it necessary to lay a trench for the main line?

A. I, as I understand it, yes. I do not think that is of any consequence.

Q I am going to read you something . . . . .

A That had nothing to do with the meter settings and a great many of the . . . . .

Q No, I want to keep away from the meters for the time being. I am just talking about the fittings connected with the pipe line. You seem to separate them in your break-down in two ways, that is meter settings and fittings and then the line fittings. We can deal with the meters and meter fittings and installations separately.

A That only involves four 8-inch gate valves with 2-inch blowoff, that is all Gentry was required to do under his contract, which is in my opinion a very small item in connection with the magnitude of this work.

Q Now then, I just want to call your attention to something that was said by Mr. Edgar Hill in his report connected with his appraisal relating to labor costs and I want to know whether or not you agree with it. You may be right and he may be wrong but I want to know whether we are on the same basis, that is all. He said at page 6 of Submission M-C.

MR. CHAMBERS: Exhibit 59 is it not?

MR. BLANCHARD: Exhibit 59. "Labor costs are based on present wage scales paid by the Company in the Turner Valley field, assuming pre-war labor performance and normal pre-war overtime payment policies. No weight was given to excess labor costs due to abnormal overtime." Now do you agree with that view in making an appraisal?

A Well, not under these conditions, no. Furthermore, I think you have got to read this thing as an over-all picture. His discount rate was much lower than the one I used.

Q What is that?

A I believe his discount rate, depreciation rate - his depreciation rate I should say was much lower than the one I used.

Q I know that.

A I think all these things go to make up the total consideration.

Q Yes, but he may be right on his valuation.

A I do not see any reason for going back to 1943 any more than going back to 1879 or some other date to pick off labor prices when you are making a valuation as of a certain date.

Q Well that may be your view but it was not Mr. Hill's.

A Well he has a right to his opinion, of course.

Q Now you mentioned that Mr. Hill had given effect to a lower rate of depreciation than you.

A That I think is true. He did.

Q Your suggestion there is that your high replacement cost is balanced by a higher rate of depreciation, thus bringing your general net value pretty close or closer to Mr. Hill's than it otherwise would be. That is your suggestion?

A Well I think that follows.

Q Now Mr. Hill's labor cost in connection with the pipe line installation was based on certain unit cost that he furnished to the Board and which are contained in a sheet which, if it was not marked, should have been, sir. I cannot find that it was marked separately as an Exhibit. I asked Mr. Chambers yesterday whether he knew whether it was marked.

MR. CHAMBERS: I was trying to find out if it was marked.

MR. STEER: Yes, it is an addition to Exhibit 59.

MR. BLANCHARD: Then it was put in, not as a .

A [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Q [illegible]

A [illegible]

[illegible]

Q [illegible]

A [illegible]

Q [illegible]

A [illegible]

[illegible]

A [illegible]

[illegible]

[illegible]

[illegible]

[

separate Exhibit but as an addition.

MR. CHAMBERS: The Court Reporters have the original, I imagine.

Q MR. BLANCHARD: Very good. Now in these unit costs, Mr. Teis, Mr. Hill included in the construction costs these items, unloading, hauling and stringing, clear right-of-way, ditch, weld, bend and lay, coat and wrap, backfill and automobile expense.

(Go to page 2816)

It also included, according to Mr. Fill's evidence, given at page 1796 I think it is, which is in Volume 23, yes, in Volume 23, page 1796, I see that unit cost also included the cost of installing all fittings to the pipe line and, not meter settings but all fittings to the pipe line which are as shown in your breakdown 2-A,which is Exhibit 103, as being under "Valves and Fittings".

THE CHAIRMAN: Page?

MR. BLANCHARD: Well I took it as an example, page 3 of 2-A, and Mr. Fill said all those that are under the first group, that is under "Valves, Fittings, Meters, etc." down to that point where it says "at well", Mr. Fill said those fittings not connected with the meters were all included in his used labour costs or installation costs; now then.....

A Well that is true.

Q And I suppose as an appraiser he probably knows what he is talking about?

A Well it is my opinion that you are mistaken.

Q I cannot hear you?

A I say it is my opinion that you are mistaken.

THE CHAIRMAN Mr. Blanchard may not be mistaken, perhaps the Court Reporter may be mistaken.

Q MR.BLANCHARD: May I read you from the record so that there may be no mistake about it at all, in my examination or cross-examination at page 1795:

"Q I do not want to ask you to comment at all on the appraisals of the British American submissions but I would like to know certain things so that there may be a basis of comparison",

and that is all we are trying to do now.

Now then:

"I would like to know whether your unit costs for pipes include all fittings such as are described in the gas gathering lines account of the British American submission 2-A; I do not know that you have that submission before you but I am referring particularly to page 3 of that submission, which no dount will later be put in as an exhibit'

and it is now in?

A Yes.

Q " And rather than read into the record each item, may I ask you to look at the items which are put on pages 3 and 4 under the heading "Valves, fittings, meters, etc." and tell me whether your unit costs include those items?

A My unit costs for pipe line material include a per foot allowance in cents per foot for the valves and fittings which are shown in the middle of page 3 of the British American Exhibit."

It was not at that time an exhibit, but it is now.

"Q And at the top of page 4 also.

A I think that the fittings marked "at well" are substantially, make up the meter setting which I had not included in my pipe line account but put under "Meters Account" by a lump sum of $400.00 for each setting of meters.

Q Yes?

A I say part of it is included and part of it is not.

Q So that the meter, the meter and meter settings referred to on pages 3 and 4 are not included in your unit costs?

A Not for the pipe line.

Q Yes. Now then would you indicate or can you indicate what are meter fittings on those two pages and we can perhaps have this applied to the others?

"A Well where there is a listing in the category "at well", it starts off with one "orifice meter" and it is followed by a group of fittings and then at the end of that group it is totalled, valves, fittings, meters and so forth. I will say of that total of $667.97 there, $134.34 is included in my pipe line unit prices."

And those are the first of the group on page 3?

A No, I may be, I stand corrected but did he include "drips" in his unit costs?

Q Yes, he did. All right now, we know what he included in his unit costs, were those included in your unit costs, those matters which I have mentioned which were included in Mr. Hill's unit costs,

A The drips and meter settings were not included in my unit costs for the main pipe line work, no.

Q Is everything else included?

A Those things are included that were included under the Gentry contract with the possible exception of several mainl line gates as they mention specifically in this contract.

Q Did you charge for the labour of installing those separately?

A I am not certain about that. I do not know how many main line gates there were on the system, offhand, but it is possible that I did charge those separately.

Q Let me ask you this. You have "installation costs" at so much per foot in each section of your appraisal "2-A", Exhibit 103 at the unit price fixed in the Gentry contract plus exchange?

A That is true, yes.

Q Now what labour did that cover?

A As set out in my report, the unit price as set out, I am reading from page 5 of my report under Paragraph "Installation Costs":

"The unit prices set out in the Gentry contract are to be paid in American funds and include the following items of labour: (1) unloading pipe at rail point, (2) hauling pipe and stringing same along the right-of-way. (3) excavating ditch, (4) welding pipe together, (5) placing pipe in ditch, testing same and repairing any leaks due to faulty welds, (6) back filling ditch. Gentry is to furnish all necessary labour, construction supervision, welding rod, construction tools and equipment necessary to construct and lay the pipe lines. River crossing construction and auxiliary connection work is not to be done except at extra cost. The contractor furnishes no material except welding rod."

Q Now that is included in your unit prices?

A Yes.

Q Just the same as you have stated on page 5?

A Yes.

Q But it did not include the gate valves?

A Well as I pointed out a while ago there are only three or four of those gate valves and I did not take them into account probably.

Q Well it did not include any fittings such as Mr. Hill included in his?

A No, the Gentry did not include them in his contract.

Q Now then, what did your item "connecting labour costs" cover, what does that cover?

A That covered all of the meter settings and the drips, installation of the drips, the making of by-passes and other appurtenances necessary to the line.

Q Part of that then relates to the installation of fittings

connected with the pipe line such as drips?

A It includes.....

Q And part of it covers meter settings?

A That is true, yes.

Q And you cannot separate them? Well I do not think we need worry about it but that is the fact, what you have told us?

A That is correct.

Q Now you did not include in your unit costs certain things which were included in Mr. Hill's unit costs as shown in the breakdown, in the unit costs sheet attached to Exhibit 59, and those things which were included in Mr. Hill's unit costs which were not included in yours or in the Gentry, are coating and wrapping for one thing?

A Well I did not make any addition in the unit costs for any coating or wrapping. Whatever was done on the British American line would be, would fall under that unit price of Gentry's.

Q Yes?

A So that whatever was done would not be an addition to the unit price under the Gentry contract.

Q No, but in Mr. Hill's unit cost that coating and wrapping was taken as part of the labour costs but you did not take it in as part of your labour costs in your appraisal?

A Yes, I did.

Q What?

A I did, yes. It is in the Gentry costs.

Q Where is it in the Gentry?

A Well, I took the Gentry costs, if the pipe lines were coated I made no additional for the coating.

Q Does Gentry say anything about coating and wrapping pipes so far as unit costs are concerned?

A Well that may be a little mistaken, you can consider it in the

Gentry costs or whatever you choose, but I made no addition to values by reason of the fact that the pipe was wrapped or coated.

Q You took the Gentry unit costs and that Gentry unit cost only covered certain things and it did not include coating and wrapping costs, that is the labour for coating and wrapping, that is true is it not?

A No, the Gentry contract did not include the coating and wrapping, but my unit costs are not increased over the Gentry contract price by reason of the wrapping and coating.

Q Quite so, quite so, but if you had taken coating and wrapping into consideration in these old installations, you would have had to add something to the Gentry unit costs?

A That is true, yes.

Q That is true? All right, now.....

THE CHAIRMAN: Or make a deduction.

MR.BLANCHARD: Quite, Sir.

Q MR.BLANCHARD: Now I want to just take one comparison and that will do, I think. Between your appraisal on unit cost basis and Mr. Hill's appraisal, and then I will ask you if you have any comments to make and I would like to refer you, I will just take one at random, take the six inch pipe, page 10 of your submission 2-A.

Q I do not have that.

(Document handed to witness).

Q Now then will you tell me first what the weight of that six inch pipe is, it is in your D-E pipe, what is the weight of that six inch pipe?

And while the normal diameter in line is known there may be several weights of pipe in each section and it is extremely difficult to identify the exact position of certain pipe. Going through their records I find that they had some twelve pound pipe and some standard line pipe and they had some 10.23 pound pipe and they had some 6" casing, then they had material designated, pipe, and that was the extent of it. Now on this particular line which you mentioned I have a note here that Line D-E is 6",weight of pipe unknown and most of the 6" in the system is 10.3 or 11.64.

Q That is pounds per foot ?

A Pounds per foot or standard line pipe.

Q What is the standard line pipe weight, do you know ?

A Just a minute and I will tell you, 19 pounds. Now in making a determination of the value of these lines it was necessary to strike an average figure and balance it out against these various items as revealed by company records.

Q I do not think we need labour this. I will accept the weight of 19 pounds. Is that satisfactory to you ?

A That is the weight of standard line pipe as I have it here.

Q Let us apply this. Let us apply this weight to your appraisal. Let us assume it weighs 19 pounds. Now was that screw pipe or welded pipe ?

A Do you mean the weight here. Well this was welded pipe I am talking about in Line D-E.

Q Is the installation of welded pipe more expensive than screw ?

A Yes I think it is.

Q How much more expensive ?

A Well it is cheaper probably after you take the threads off, plain end pipe. The actual cost of installing is higher for

welding than screwing.

Q Well is it not cheaper to lay screwed pipe, to put it together and lay it than welding ?

A Yes, that is what I said.

Q So that screwed pipe is a more expensive proposition ?

A Yes, but buying the screwed pipe with couplings as against welding, welding would cost less.

Q I want to take Mr. Hill's cost of 6" 19.45 screwed and his unit cost for that pipe construction cost which includes coating and wrapping is 44 cents per foot. He then adds a contractor's fee of 4.4 per foot. That is 10% contractor's profit, making his total construction cost per foot for that weight and type of pipe and size of pipe .484 cents per dollar. That is 48.4 cents per foot. Now turning to this pipe line D-E.

MR. HARVIE: Where do you get that reference Mr. Blanchard ?

MR. BLANCHARD: I get it on this sheet which is filed as part of the Exhibit.

Q Now then I find that your installation costs which you say does not include the installation of drips and does not include coating and wrapping, that your installation costs are at the rate of 95.46 cents per foot. Now Mr. Hill in his construction cost puts in for coating and wrapping that size and weight of pipe a charge of 7 cents per foot, so that if you leave out coating and wrapping you have Mr. Hill's cost for that weight and size and type of pipe of 41.4 cents per foot including a 10% contractor's profit. I just want to carry that out and if you care to take your pencil you will find that instead of $14098.18 for installing that pipe, Mr. Hill charged on the basis of not including the wrapping and coating $577.20. Now can you explain

such a terrific difference in those installation costs. Where does that difference lie, it must lie somewhere.

A I do not know. I did not make any analysis of that sort.

Q May I suggest it lies in the importation of expensive labour. Would that explain it ?

A It may.

Q By the way you referred to Mr. Biddison's letter ?

A If I might be permitted to make an observation. There have been some changes in labour costs since the day Mr. Hill assumed construction. Is that not true ?

Q Well Mr. Hill has discussed that in his submission and if you are putting it on that basis, you might tell us is that difference explained by a further increase in labour costs since the time Mr. Hill made his appraisal which was November 1943 ?

A I had that in mind in making the statement that it is but I am not quite sure that all of it but some of it.

Q Part of the difference may be from the fact we are paying for it in United States funds ?

A My basis for these labour costs as I stated in the report, it was my opinion at the time that an actual construction contract presumably made in a business like manner represented the best evidence as to construction costs of the present day.

Q What really it amounts to is that you did not value this on the basis of costs in Turner Valley at all, did you ?

A I would not say that, no. I imagine -

Q I am not quarrelling with your method. We are just trying to find out so that we can have a uniform basis for appraisals throughout this field. Now you spoke of Mr. Biddison's letter and I took it or at least you left the impression that his letter was not of a critical nature ?

A He did not include any criticism, no.

Q Did he ask you how it came about that you did not depreciate your labour and other intangibles shown in your submission ?

A He asked that question among others, yes.

Q By the way, will wet gas corrode pipe more quickly than dry gas ?

A Pipe containing moisture in presence of sulphur or hydrogen sulphite will corrode more rapidly.

Q Do you know the character of the wet gas in Turner Valley ?

A Well just from my observation of the drip and so forth is all I know about it. I have not seen any analysis of the gas.

THE CHAIRMAN: You said some moisture Mr. Teis. Did you mean water ?

A Water.

Q You meant water ?

A Yes.

Q MR. BLANCHARD: And sulphur content would corrode pipe ?

A Yes in the presence of water and oxygen will create a corrosive condition.

Q Not the natural gasoline contained in the gas ?

A No sir.

Q Now you have not made an appraisal of the salvage value of this pipe assuming that the pipes that are connected with the crude oil wells, say assuming that those gathering lines will have no further service to perform at the end of ten years from now, do you think they would be worth taking up and reconditioning and cleaning and selling ?

A That depends altogether on the conditions at that time, market value of the pipe and demand for it in this territory or perhaps the use the utility or somebody else might have for the pipe. I

would not know.

Q Have you considered that factor at all ?

A Not to any great extent. I did not consider the salvage value.

Q What would your opinion be now of the probable salvage value of that pipe at the end of ten years. That is taking it up and reconditioning the pipe, cleaning it and reconditioning it so that it would be ready to handle again and stacking up. What would it cost to do that, Have you any idea for a mile of pipe ?

A Well of course it depends somewhat on the size of the line because it would have to be cut with a torch and the depth to which it has been buried. It would probably cost, oh I would judge somewhere in the neighbourhood of one-half to two-thirds of what it cost to lay it.

Q That includes all the manner of things I have mentioned, reconditioning the pipe, that is cleaning and making it ready for use somewhere else, hauling it and stacking it.

A I have not made any estimate of that kind.

(Go to Page 2827)

Q What would be your offhand opinion of the value of the pipe, do you think it would have to be taken up?

A I do not.

Q What salvage value do you think it would have?

A I have not determined any.

Q Do you think it would have a salvage value of more than 5%?

A At the end of ten years?

Q Of the pipe value?

A Well it would not have much more than that.

Q Would not have much more than that?

A No.

Q All right. Then take the gas cap wells, and let us assume that they would not be taken up for 25 years, what do you think the salvage value of those would be?

A Well it would be very little.

Q 5%?

A That is a matter, this matter of estimating salvage value at long range is, of course, admittedly no better than a guess, I believe my opinion would not be worth very much.

Q No. That was Mr. Hill's opinion too,I can tell you?

A My opinion would not be worth very much.

Q So that really the value of this plant depends on its service life?

A That is true, yes.

Q That is, you might say that when the field is exhausted, or when the gathering lines are no longer used, then they pretty well have exhausted their value?

A I think that is generally true.

Q You think that is a fair statement do you?

A I think so, yes.

Q There again Mr. Hill and you pretty well agree. Now if that

is the case, if you say that the life of these lines for valuation purposes is the life of their service in the field, then don't you think that it would be proper to depreciate those lines after accrued depreciation on a throughput basis, that is a depletion basis?

A Not for the purpose for which I made the valuation, no.

Q What was the purpose for which you made your valuation?

A I made the valuation for the purpose of transferring the value of this line from one ownership to another, and my estimate of value has been defined by me several times. I considered there was a business deal.

Q Now let me put this very simply to you, if you agree that this pipe is not going to have any value to speak of at the end of its service life, and if there has already gone through the gathering lines one-third of the gas that they would carry from the start to the finish, do you not think that it would be proper to depreciate them for accrued depreciation to the extent of one-third?

A No sir.

Q You do not?

A No.

Q And why don't you?

A I am speaking entirely from the standpoint of the appraisal I made, and as I have stated a number of times my theory on this appraisal, it is merely a matter of a business deal between two parties, one having the plant and being willing but not forced to sell, and a ready and willing buyer.

Q You are really talking about a deal between father and son aren't you?

A I do not know what you meanby that.

Q No, I do not suppose you do. All right. You do not agree

with the suggestion?

A No sir.

Q That depletion would be a proper basis for accrued depreciation?

A No sir, I do not think it is proper in this case or I would have used it.

Q Did you base your accrued depreciation on the life of the pipe?

A I based my depreciation on observed, on my observation of the condition of the pipe as it is, as near as I could determine it.

Q Irrespective of its age?

A That is true, yes.

Q You did not say the life of that pipe put in new would be 50 years, it has been in the ground 10 years, therefore it has depreciated one-tenth of its life?

A No, I did not use that basis at all.

Q That is quite a usual basis isn't it?

A It is impossible in this case because the pipe was secondhand when it was put in there, a great deal of it.

Q The pipe was secondhand when it was put in there, a great deal of it?

A Yes.

Q You do not know how old it was when it was first put in?

A That is true, yes sir.

Q No. So that really the depletion basis for depreciation would be a fairly reasonable way to look at it, not knowing the age of the pipe at all, then it would not matter how old the pipe was, would it?

A I do not think that depletion method is correct.

Q Well, we cannot get together on that?

A No sir, we cannot agree on that.

Q All right. By the way, you add to each item for supervision and administrative expense 10%?

A That is true, yes sir. However, that is added to the depreciated value of the pipe and not to the replacement cost.

Q Yes, you made that clear yesterday. That is the 10% of the depreciated value of the pipe only?

A The pipe and equipment.

Q And all the other items?

A Yes, that is correct.

Q If any?

A Yes.

Q Is that a fair way or a fair basis to add a percentage for supervision and administration? Should not you have only confined that to labour, 10% of the labour, not 10% of the value of the materials, am I right about that?

A Oh, I do not think it makes much difference. The question is as to the amount, not to the percent, or what it is applied to. The supervision is required for the purchase of this material and getting it out on the job, and the cost of the job is, I think, the entire cost is as good, as proportional to the administrative expense as the labour would have been.

Q You know that the administrative and supervision costs of installing something, that the material of which might cost $10,000.00, that there might not be any greater administrative and supervision costs than for the article which cost $100.00. Suppose you are installing something that the labour costs are equal, but the material in one case cost $10,000.00 and the other cost $1000.00, and that the labour costs of installation are the same, do you say that you should take your administrative and supervision costs on the basis of the costs of

the material?

A The costs which I applied here were given me by the Company as representative of that item when applied against the entire cost of the project, and that is the way that I used it. I grant you that administrative costs might vary with every type of work.

Q Tell us, what did the Company tell you about that?

A They stated that in a letter to me.

Q Have you the letter?

A I have the letter, yes.

Q May I have it?

A I would prefer that you refer your request to Mr. Harvie.

THE CHAIRMAN: Have you it here?

A Yes, I have it here.

MR. BLANCHARD: I do not suppose there is anything secret about it. It is to form a basis for the appraisal. I do not suppose there is a catch to it.

MR. Harvie: If you are going to put in letters, put in some more, Mr. Biddison's and some others.

MR.BLANCHARD: I have no objection to Mr. Biddison's letter going in if you wish it.

Q THE CHAIRMAN: Will you produce the letter?

A Sir?

Q I am asking you to produce the letter.

A I have it here.

MR.BLANCHARD: I assume it tells you how the 10% is to be arrived at, is that correct?

A Yes sir. It says that the supervision and administrative expense may be calculated at 10% of the installation costs. This figure is not intended to include Toronto expense. If you desire to add Toronto expense, we suggest that you use

10% of all expenses.

Q And you accepted that?

A Yes.

Q And added it?

A Sir?

Q And added it?

A Yes.

Q Did they say to add 10% to the cost of labour or to the cost of materials or to the costs of everything that you had in there?

A I interpret that"all expenses"as meaning everything.

Q That is your interpretation of it?

A Yes.

Q It might just as well have meant that the B.A. wanted you to add 10% for administration to labour costs. It is consistent with that, is it?

A I do not think so. I think the 10% is a reasonable figure.

Q Pardon?

A I think that the 10% is a reasonable figure?

A You think the 10% is a reasonable figure?

A That is the principal reason why I used it.

Q You think 10% of the costs of materials is reasonable?

A I think 10% of the cost of materials is reasonable, and the costs of the entire job, the materials of the entire job is reasonable for supervision and administrative expenses.

Q Suppose you had put in a purifying plant, or something of that kind, perhaps that is not an apt illustration, but some machine that cost $200,000.00, and it only took $2000.00 worth of labour, would you say that the supervision and administrative costs would be10%?

A I would not know.

Q You would not know?

A No.

Q No. You would apply the 10% charge on the whole thing according to your way of figuring it?

A I am inclined to think that in my experience in estimating costs leads me to believe that there are many expenses in this work which are not included in the costs which I have presented here. Practically any construction job costs a great deal more.

Q You are charging 10% on Mr. Gentry's profit on his contract, aren't you, as administrative and supervision cost, because you have that profit in the unit costs?

A That is true, yes.

Q That is true?

A Yes.

Q Do you think that is reasonable?

A I think it is, yes.

Q You think it is?

A Yes.

Q All right. By the way, I might ask you something that perhaps is actually not connected with your appraisal, but you might be in a position to give the Board some assistance in the matter. Do you know of any pipe line companies that transport gas to absorption plants owned by other companies where they charge on a transportation basis for taking the gas from the well to the absorption plant?

A No sir.

Q All right. That is all.

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September 11th, 1945.

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MR. CHAMBERS: If the Board pleases, I have one or two questions arising out of Mr. Blanchard's cross-examination, whenever it suits the Board.

THE CHAIRMAN: All right.

CROSS-EXAMINATION OF THE SAME WITNESS BY MR. CHAMBERS.

Q Mr. Teis, on this matter of 10 per cent which you have added for supervision and administration, about which my learned friend, Mr. Blanchard, has questioned you, I take it that you have had experience as an engineer, not only in appraising existing properties, oil properties or gas properties, but also have had experience in actual construction.

A I have, yes.

Q And in the construction of property such as this there are certain items of what is commonly known as overhead or intangibles. Have you ever heard of those terms before?

A Yes, I have heard those.

Q Some of those things are the cost or expense of designing the project that is to be built?

A Yes, sir, that is true.

Q There are engineers and experts on designing and they have to be paid for doing the job.

A That is true, yes sir.

Q And then during the construction, the party for whom it is being built or who is building it has a certain amount of capital tied up during the progress of the construction, from which it does not begin to earn until the job is built, completed, is that right?

A That may be true, yes.

Q Well then I suggest to you that in this general term of overhead or intangibles, you quite often hear of an item

of interest during construction. Have you ever run into that?

A Yes, sir.

Q And then it is necessary to carry insurance liability and other kinds of insurance during construction?

MR. BLANCHARD: Excuse me, in the Gontry contract they were paying that.

MR. CHAMBERS: In this particular case?

MR. BLANCHARD: Yes.

MR. CHAMBERS: I am examining this witness generally on some percentage or why they do it.

THE CHAIRMAN: To see if you can get any adventitious aid.

MR. CHAMBERS: I submit I do not need it.

THE CHAIRMAN: It is very proper of course, Mr. Chambers.

Q MR. CHAMBERS: During the construction of a project such as this, taxes, and I am referring particularly to property taxes and things of that nature, go on?

A Yes sir, they go on.

Q And that item of taxes during construction is another intangible or overhead cost?

A That is true.

Q Of building a project such as this?

A Yes.

Q Then what I am getting at, Mr. Teis, is this, that in valuing an industrial property such as this or in constructing a property such as this, there is a practice and a well-established practice, of estimating or allowing for these intangibles or overheads on a basis of a percentage of the entire cost of the project.

A That is quite often used in engineering estimates, yes.

Q Well, is it not almost invariably used?

A Well I think that is a fair statement.

Q If you were collaborating with a client who was going to build a property such as this, they would call you in to assist them in designing and to advise them in estimating how much the job was going to cost them would they not?

A Yes sir.

Q And these items that I have listed are some of the items which you would have to consider?

A That is true, yes sir.

MR. BLANCHARD: This may be cross-examination but it sounds very much like as if Mr. Chambers was giving some evidence.

MR. FENERTY: A hostile witness.

MR. CHAMBERS: I submit it arose out of your cross-examination.

MR. STEER: Go ahead and lead him.

MR. CHAMBERS: Certainly I am entitled to put the answer into his mouth and if he does not agree he can say so.

Q What I suggest to you is this, Mr. Teis, that that percentage which is used for the purpose of covering these overheads is a percentage that is applied not to the materials or to the labor but to the entire tangible costs. That is the practice is it not?

A That is the general practice.

Q And experience has pretty well found that that is the best known practice at least?

A I think it is, yes sir.

Q It is true that certain kinds of jobs involve more overheads than others. That is right is it not?

A That is true, yes.

Q For that reason we find that engineers or appraisers or people that are estimating cost of jobs will sometimes apply different percentages, having regard to the nature of the job that is being done.

A That is true, yes sir.

Q For instance, I think Mr. Hill told us that it varies from ten to twenty, or maybe less than that. But there is a margin in some jobs, they apply as high as 20 per cent of these overheads. Have you ever had experience in that?

A A factor that might be - I think it is in estimates generally termed contingents - I think it depends upon the estimator's opinion as to the accuracy with which his costs have been developed and he adds a certain percentage for unforeseen costs which always occur in any construction job or any job I have ever seen done.

Q What I am getting at is this and it suggests itself to me due to Mr. Blanchard's cross-examination that the percentage, whatever is arrived at, the practice is to apply it to labor and materials both.

A Yes, I think that seems to be the usual practice.

Q But according to the nature of the job allowance is made for that in the amount of the percentage that you use?

A Yes sir.

Q I think you told Mr. Blanchard that you allowed or used a higher discount rate for the purpose of arriving at your observed depreciation of the B-A gathering lines than that used by Mr. Hill in his appraisal of the Madison property.

A I think that is correct.

Q And in arriving at the observed depreciation you arrive at the . . . . . The estimator or valuator arrives at his percentage as a result of his inspection of the property?

A That is the means by which I arrive at it.

Q You did not inspect the Madison property of course?

A I did not, no.

Q You have no knowledge of the condition or the pipe in that system?

A That is true.

Q Any discount rate you might use for the purpose of arriving at the observed depreciation might not necessarily govern or have any relation to what Mr. Hill would do in valuing the Madison property?

A That is quite true.

Q Now I think you told us that the pipes you inspected were coated with tar, was it, asphalt?

A Some sort of asphaltic coating, I presume. Black . . . . .

MR. BLANCHARD: Some were, not all of them.

Q MR. CHAMBERS: Some?

A Yes.

Q Were they wrapped as well as coated?

A The only wrapped line I remember is the line which they acquired from the Royalite. That line was wrapped.

Q Talking about this matter of salvage, you know, I take it, Mr. Teis, that in addition to this property that you have valued, the British American Company have very recently, as a matter of fact under the Gentry contract, installed some new lines?

A Yes sir.

Q Now will you assume with me these new lines are going to be there for 10 years and we will assume that the lines

you valued are going to be there for 10 years. Will you also assume with me that the pipe recently installed under the Gentry contract for the B-A was brand new material. I suggest to you that at the end of the 10-year period the amount of salvage, of the net salvage, as between the old lines that you have valued and the new ones now put in would not amount to very much.

A The net difference did you say?

Q Yes.

A I think that is true, yes.

Q And I also suggest to you that that would apply even 20 years from now, the same general principle.

A It would all be second hand pipe and since the deterioration is not great in the field, the new pipe which was laid later would not be proportionately higher in value than the old pipe in my opinion.

MR. CHAMBERS: Thanks.

MR. BLANCHARD: I was going to say, sir, if I may, that this letter which was referred to and I have since cross-examined on, ought to be produced and put in.

THE CHAIRMAN: I have said it should be produced but when you did not press it, I let it go. If you think it should go in I will so order.

MR. BLANCHARD: I think it should. It has been referred to and it has been read from. I think it is only fair it should be put in.

THE WITNESS: We will furnish you with a copy of it later. This is my file here.

THE CHAIRMAN; I think the original could be filed and you will get it back, Mr. Teis.

MR. BLANCHARD: I do not care.

THE WITNESS: November 14th, 1944.

MR. STEER: Why not read it into the record if Mr. Teis does not want to part with it?

MR. CHAMBERS: That would serve the purpose, yes.

(Go to page 2841)

Q MR. HARVIE: What is the date of that letter ?

A November 14th.

Q MR. BLANCHARD: 1944 ?

A Yes.

"In reply to your letter of November 10th, we trust that the following information will meet your requirements:-

(1) Boiler Tubing

Size	Weight	Price per 100'
5 3/16"	8# per ft.	$75.00 (Canadian)
4"	5 1/2 per ft.	45.00 "
3 1/2"	4.33 per ft.	37.50 "

The above is the current second-hand price F.O.B. Calgary, as new boiler tubing would not be used in pipe lines.

Spiral Weld

Size	Weight	
10"	#12 gauge, wall thickness .109	Naylor
12"	#12 gauge, wall thickness .109	"

We have made every effort to obtain a quotation here but have been unable to do so. The manufacturers of the pipe are the Naylor Pipe Company of Chicago, Illinois. This pipe is sold by National Tank Company of Tulsa, Oklahoma, who can give you delivery F.O.B. price, Chicago. According to figures submitted by Toronto the original cost of the spiral weld pipe was $73.60, Canadian, per 100' for 10"; $89.40, Canadian, per 100' for 12", in 1936, all prices F.O.B. location.

(2) We enclose a map showing the various laterals with length, size and description of pipe.

(3) Statements of costs and description of material furnished by Head Office are enclosed herewith.

(4) We have been unable to obtain any additional exact information relative to right-of-way and legal expenses. However, we have added up survey expenses in connection with a number of survey jobs in the Turner Valley Field and find that the survey cost is $150.00 per mile and that the right-of-way cost is $75.00 per acre. All right-of-ways being 16 1/2' wide. Field supervisional and administrative expenses may be calculated at 10% of the installed cost. This figure is not intended to include Toronto Office expenses. If you desire to add Toronto Office Expenses we suggest you use 10% on all expenses.

(5) All prices forwarded by Mr. Cull, with the exception of the Gentry contract prices, have been in Canadian Funds. Gentry's prices may be converted to Canadian Funds by adding 11%.

(6) In connection with your request for prices on lap weld pipe, we have been able to obtain quotations on the following sizes only:-

2" Standard lap weld $39.45, Canadian, per 100'

4" T & C Standard lap weld, $93.16, Canadian per 100'

4" Standard lap weld, beveled, $93.16, Canadian, per 100'

All prices F. O. B. Calgary.

We have requested Oil Well Supply Company of Dallas, Texas to forward to you quotations on the following lap weld pipe:-

3" light weight

4" 6.25# bevel

6" black steel 12#

6" 10.23#

6" 11.24#

6" 16.24#

8" 17#

10" 24.75#

8" Galvanized, light weight.

It is possible that these quotations may be in American Funds. If such is the case the Canadian equivalent, duty and taxes paid, may be obtained by multiplying the U.S. dollar price $1.63, which does not include freight. Freight must be added to the Canadian figure to obtain the equivalent price, F. O. B. Calgary.

This figure, $1.63 will hold for the conversion of any prices which you may obtain in U. S. Funds to the Canadian dollar equivalent, duty and tax paid.

Your suggestions in connection with mimeographing and printing of maps are agreeable to us.

Yours very truly,

J. A. McCutchin,

Per: A. Cull. "

CROSS-EXAMINED BY MR. FENERTY:

MR. FENERTY: If the Board will permit, I have one or two questions which I would like to ask further. One which Mr. Chambers might say is arising out of his cross-examination and others which I forgot.

MR. CHAMBERS: If my learned friend will permit, I thought

I had finished but I overlooked the fact that I had asked Mr. Teis for some information yesterday, as you will remember and I neglected to follow it up. I think it was on Page 2787, yes, Page 2787 of Volume 36, I asked Mr. Teis if he could give me the weight per foot of the different sizes of pipe he used.

A I have prepared a statement here which represents the average weight per foot of the various sized pipe. Now I point out that this was an average figure and in some cases I may have, - where I definitely knew what the weight of the pipe was in certain sections of the line, I may have varied from this average weight and this average weight may not even represent the standard weight of pipe in some cases but these are the average weights determined by dividing the dollar value by the price per pound as quoted on the various sized pipe.

Q MR. CHAMBERS: Now is the statement in such a condition that it can be filed as an Exhibit ? If it is not too long I am content if you just read the figures into the record.

A Well it is a little difficult maybe to read them into the record.

THE CHAIRMAN: It had better be filed, Mr. Chambers.

MR. CHAMBERS: All right. I am content to have it marked as an Exhibit now and Mr. Harvie might have it typed for us later.

MR. HARVIE: Yes.

STATEMENT SHOWING WEIGHTS OF DIFFERENT PIPES HERE PRODUCED AND MARKED AS EXHIBIT 105.

CROSS-EXAMINED BY MR. FENERTY:

Q Mr. Teis, would it be fair to say that from an engineering point of view, where you have a line made up of such things as

line pipe, tubing, casing, some new, some second hand, a conglomeration of that kind, from an engineers' point of view, the value of that as a whole, would necessarily be something less than the total cost of the individual items,- would you discount the cost in considering it as a whole ?

A In an appraisal of that type of system you naturally give some weight to the character of the design of the system, that is you would for certain purposes; this system as I viewed it in the large was generally useful for this purpose.

Q Yes, I see.

A And that furnished my conception of the thing at the time I made this appraisal.

Q But you would not, as an engineer, you would not think of using these specifications if you were going to put in this particular line ?

A No. As I pointed out if the system were designed from the beginning, that it would not likely be identical with the system that has been constructed there.

Q If you were designing the system for this particular use you would not think of using these particular specifications ?

A Well I might use them if they were available and other materials were not.

Q There might be a special reason for using them ?

A I would not probably specify them in the original design.

Q There might be a reason for using them ?

A Yes.

Q But would it not follow that if that is not what you would specify if the material were available, that it necessarily follows that the complete construction should have some less value attached to it than the actual cost ?

A Well of course the values we have placed on it is less than the actual cost.

Q I am just asking you whether you would or not ?

A Yes I would.

Q You think you should attach some discounted value to that kind of conglomeration ?

A The only basis, or the basis on which I have made my appraisal I would not apply any further discount.

Q But just on an every day basis as a competent engineer, you would discount it quite a bit, would you not ?

A Oh I really do not know that I could measure it.

THE CHAIRMAN: Mr. Fenerty, it would be fair to the witness to say a system of that kind just grows, you could not design it in advance, and then you have to give some value to the services which it performs rather than the intrinsic value of the pipes and so on.

Q Yes, those are both elements; then I want to take about five minutes and I will not be too long I hope; Mr. Teis, yesterday I started to discuss with you some elements of public utility valuation and I was referring to the Smith case or the Smythe case, which has been discussed many times, and this is approximately what I want to ask you, I want to read something to you, as a matter of fact it is from Baeur & Gold on Public Utility, in considering that case which was before the Supreme Court of the United States the following appears in this text:

> "Out of the prior conflict between actual cost and reproduction cost that appeared particularly in the railroad cases, the Supreme Court would be naturally led to harmonization by recognizing neither base, and by setting up a 'fair value' conception that includes reasonable

consideration of all factors and conditions in each particular property. With such a view it would follow the well-recognized condemnation procedure, but without necessarily falling into confusion as to the character of 'fair value' to be sought. At any rate, the Court seemed to reject both actual cost and reproduction cost as the measure of 'fair value', but not explicitly. It apparently recognized both, but each only as a factor together with other considerations that might be properly regarded in coming to a 'fair' determination in each instance."

Would you think that was a fair and reasonable way of approaching the problem of valuing a public utility ?

A It is not clear to me, - it is not clear to me from which direction they approached it, after listening to that.

Q I do not think it is clear to anybody in what direction the Supreme Court of the United States approached the problem but I am just pointing out this particular thing that it included "a reasonable consideration of all factors and conditions in each particular property", you would not quarrel with that that was a reasonable proposition to consider all factors and conditions in each particular property, that that is one of the things to be considered ?

A That would pretty well cover all of them.

(Go to Page 2848)

Q Would you quarrel with this, that it includes the consideration of all facts and conditions. If you do not quarrel with that I will go on to something else. Just tell me.

A Oh I think maybe you can inject so many factors into a valuation which will become entirely confused and lose sight of the problem in hand so that you reduce the thing to such a complex situation that perhaps by ignoring certain factors the simplicity of the method might be better.

Q After telling me all that will you agree that in order to do a fair valuation there should be a reasonable consideration of all factors and conditions in the particular case. Do you agree or do you not agree with that ?

A I think it is impossible to consider all of them ?

Q You do not agree with that. I am trying to get an answer.

A No I do not generally agree with that.

Q You won't answer it ?

A I say I do not generally agree with it.

(A short adjournment was now taken)

11.24 A.M.

Q Mr. Teis, when we adjourned a few minutes ago I think we had got together on one thing, that there should be a fair value applied whatever that may be. It should be fair ?

A I will agree with that, yes.

Q We were not able to agree that in order to arrive at a fair value you should include a reasonable consideration of all factors and conditions in each particular case. Will you go this far with me that there may be circumstances where you should consider all those factors. Is that reasonable ?

A Well of course the matter of valuation or any process you use

[illegible]

[illegible]

[illegible]

- [illegible] -

[illegible] general [illegible], it is [illegible] [illegible] [illegible] and conditions. If you are a quarter [illegible] this go on to [illegible] [illegible]. That [illegible] [illegible].

Or I think maybe [illegible] can [illegible] [illegible] many [illegible] [illegible] [illegible]

must stay within the realm of practicability and when you say you take every factor into consideration why that is approaching an infinite number of factors.

Q Just getting this far, now in order to get the fair value there may be special factors in a particular case that you should consider ?

A I think that is true.

Q We won't quarrel with that will we ?

A No.

Q We will go a little farther and say there may be special factors in individual cases which would render one or the other systems of valuation more appropriate. There might be that position ?

A Possibly that is true.

Q That is true is it not and I was interested in the analysis and collection of cases by Mr. Justice Brandeis, again of the United States, which is referred to in Barnes on "Economics of Public Utility Relations" Page 504, out of 363 commission cases reported in the Public Utilities Report from 1920 to March 1, 1923. At some length I am going to read some of them to you. " In 5 cases: reproduction cost at unit prices prevailing at the date of the valuation." That is your system ?

A Yes.

Q "In 28 cases: reproduction cost at unit prices prevailing at some dates, or the averages of some period, prior to the date of the valuation. In 22 cases: reproduction cost of an inventory of a prior date at prices prevailing at that date or prior thereto, plus subsequent additions at actual cost (so-called split inventory method). In 3 cases; reproduction cost on basis of future predicted prices (so-called trend prices, or new plateau method). In 102 cases: a prior valuation by the

Commission plus the actual cost of subsequent additions. In 85 cases: the actual original cost (including both initial cost and additions). In 6 cases: original cost arbitrarily appreciated. In 27 cases: the historical cost or prudent investment. In 28 cases: book cost or investment. In 12 cases: bond and stock capitalization. In 36 cases: determination and classification of method impossible."

Now assuming that Mr. Justice Brandeis has made a correct analysis I find that this particular group of 363 cases, 5 cases in which reproduction cost at unit prices prevailed at date of valuation and 85 cases of the actual original cost and it does appear that there was a good deal of variation in the method of valuing.

A What purpose were those valuations ?

Q These are public utility cases all. Now with that before you we are perhaps in agreement that with special factors in special cases it may in order to arrive at a fair valuation be necessary to consider not only the special facts of that case, but the valuation that would also be used. Would you agree with me on that ?

A Well I will ask the Reporter to read -

Q I am not saying in this case, but as a general proposition there may be reasons to consider other methods of valuation than you have employed and special factors that you have not considered in some cases ?

A I think that is true, yes.

Q Now then having that before you, I would suggest to you that a proper situation to consider special factors would be, if you would have a field such as this involving the production of oil, gasoline and gas for fuel, for heating, dry gas, residue

K. . Lehr.
Jr. Ur-Gram. V . . . 19.

gas. If you have a field that has been in operation for some years, with equipment in use for some years involving dual purposes such as a gathering line which brings wet gas first from the well to the absorption plant - which brings it not first but brings it to the absorption plant and where the residue gas that comes through that line is then conveyed through other lines to the consumer, and assume for a moment that that gathering line between the well and the plant can be treated as dual purpose line.

A Of course that does not apply in this case. It is used only for gathering for absorption, for extraction of gasoline as I understand it. It did not go to the market prior - well it has not been, any of it, going through but on the completion of the arrangements here it will.

Q But in fact would you say there was only one purpose for the gathering line, not a dual line, namely to bring wet gas from the wells to the absorption plant ?

A No sir, so far as I know that was the principle purpose of the gathering system prior to this changed situation.

Q So it is not a dual purpose line ?

A It has not been up to now.

Q THE CHAIRMAN: Not at the time you made your valuation ?

A No.

Q MR. FENERTY: I see. The purpose of that line is to take wet gas to an absorption plant ?

A That is the purpose at the time I made the valuation.

Q A single purpose and the line from the absorption plant to the distribution of dry gas centre is also a single purpose line ?

A Well as I understand it, the residue gas from this plant was not going to market.

Q But I mean you would distinguish between the lines down stream from the absorption plant and the lines between the well and the absorption plant ?

A Of course if there had been a line from the absorption plant to a market why that would have been a separate purpose from the gathering system.

Q Well then let me get that clear. I think we are together on this. Your conception to this set up is this, that the gathering line from the well to the absorption plant is a single purpose line for the purpose of conveying wet gas to the absorption plant ?

A It was at the time I made the appraisal.

Q At that time. Well that is all you can speak of, yes, and that the lines down stream from the absorption plant are also single purpose lines for the conveyance of dry gas for fuel and other purposes ?

A Well where you have a line which is also - where you have a plant that is transmitting or transporting residue gas to market, the gathering system I think under that situation would be considered dual purpose line. That is, it gathers gas for the purpose of extraction and also for the purpose of conveying it to market. In this case we did not have any line from the plant to the market, that is speaking specifically of the situation at the time I made my appraisal.

Q Now just tell me again so I won't get mixed up because I am only a layman.

A I say at the time I made my appraisal the British American had no line to market from their plant. They were not selling residue or transporting it to market. That is my understanding so in that case the gathering system served only one purpose and

that was to convey gas to the plant for the extraction of liquid for products and the dry gas,or residue gas, was vented into the atmosphere or something else done to it.

Q In the event of there being a market for the residue gas you would treat this as a dual purpose line ?

A I think under the situation which will exist under the utility that this gathering system would be considered performing two purposes.

Q Two purposes, I see. Let us treat it for a moment as a dual purpose line. That would involve some apportionment of costs for utility purposes ?

A Well not as I understand it although I am not very well informed as to how the distribution of expense or whatever is done to adjust the cost to this dual purpose. As I understand it that is outside of the province of this valuation. That the property is to be transferred to the utility and after that they will decide what may be they will charge the absorption plant if anything for conveying the gas from the well for the purpose of extracting liquid products.

Q Let me go back to what I want. We have a line which has been used for some years for a single purpose, absorption operation, prior to these utility orders being made as you say. Let us assume as a result of those absorption operations the cost to some extent of that line has already been provided for. I am asking you to assume that and it has been provided for through the natural gasoline operations, the manufacture of natural gasoline which in turn involves the usage or wastage of the dry gas residue. It is blown in the air if there was no market for it and that in other words you have provided for a portion of the cost of that by the depletion of the gas field to some

extent. Would you think that would be a special circumstance where it would be reasonable to take into consideration the cost which has already been provided for at the expense of the dry gas operation ?

A I think that would only complicate our problem.

Q But you see what I mean. Let us get it over again.

A I have tried to keep the thing simple.

Q What is that ?

A I have tried to keep the thing as simple as possible by putting it on the basis that I did. I think it is a proper basis and I see no reason to inject past amortization or something of that sort into a problem of this kind.

Q Well I want to keep it simple but I am inviting you to consider that, would you go so far as to say with me that might be one of the special factors that would be proper to consider in a utility inquiry ?

A I do not think so, no.

Q You do not think so ?

A No.

Q Have you ever considered such a problem ?

A Well I tried to think this thing through and I considered quite a number of things and have in other cases.

Q With such a situation as that ?

A I do not think it was proper to this situation.

Q I guess we are right back to where we started, that your view of these things is that it is replacement cost less observed depreciation no matter what any other factor.

A In this case.

Q In this case.

A I am only speaking of this valuation of course.

Q Well did you consider such factors as I have mentioned in making it ?

A I did not consider them in my final valuation, no.

Q Did you think such factors existed ?

A Oh I suppose the Company has amortized their investment. I do not know to what point they have done that and I do not think it is of any consequence in this valuation. I do not think it has any place in it.

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Q I see. And suppose that the entire investment had been retired two or three times over, with the result that there were a few billion feet of gas left in the field, would you give that any consideration at all?

A No.

Q Is that so? I want to get it on the record?

A I would not give it any consideration in this case. I would like to amplify it.

Q You mean in this particular case that you are employed in?

A Yes. As I say, that is purely a matter of a buyer buying the property.

Q I see. Would you say that from the point of view of the person who was going to pay for the gas, it should be given any consideration?

A Well, he certainly should give it some consideration. If the gas was not there he would be very foolish to acquire the system at all.

Q I see. Would you say that the person who was going to pay for the gas should be given any consideration in that situation?

A Well, speaking of a utility, I think the consumers, we have him in mind at all times.

Q But you have not got him in mind with regard to the fair value?

A If I arrive at a fair value I think I have.

Q If you arrive at a fair value you think you have?

A Yes, if I arrive at a fair value I think I have.

Q All right. One more question, and your answer. Going back to something that you mentioned in the beginning of your report, page 32, which I read to you at the beginning, and asked you whether you should not consider it, "No account has been taken of the adequacy, efficiency or economy of the general

design of the system." Why did you mention that?

A Why I thought it was important to the value, and the way I arrived at it in the value.

Q In other words this is something that should have been considered?

A No, I did not so intend that.

Q Did you mean to point out something that should not have been considered in this particular public utility matter?

A I meant it as something that was not taken into account in my method of appraisal.

Q But should it be, I still ask you, should that not be?

A Not to any greater extent than my observation within my view.

Q Again from the point of view of the man who pays for things, should it be taken into consideration in your ideas?

A The matter was, as a matter of fact, taken into consideration to some extent in that. I formed an opinion that this system was generally useful for the purpose to which it would be put. Now, you are taking gas from those wells at the high pressure, not required to compress or transport it to the plant, without the use of additional energy at this time, to the extent of a considerable portion of the gas that is going to the plant, the rest of the gas must be compressed and you are utilizing energy and spending money for compressing it, therefore, this high pressure gathering system is still useful. From that standpoint I think it is useful.

Q Your viewpoint as a utility expert giving evidence on behalf of one of the owners of the property here, that in being fair both to the owner and the man who pays for the gas, it is of no consideration whether a plant is efficient or not, is that right?

A Well I would not go so far as to say that.

Q That is what you have said haven't you? I am going to get an answer to something. You have said so right now under oath that you do not think you should give any consideration whether a plant is efficient. Have you said so?

A No, I do not think so.

Q Do you mean it, that you have not said it? I want something on the record?

A I have explained that several times. That statement I have is I think maybe a little too specific.

Q Do you mean now that you have not given any consideration whether a plant is efficient? Now do you mean it or not, that is what I want to know?

A Well I most certainly should give some consideration to it.

Q You should and you did not?

A I think I did.

Q Did you say in your report that no consideration was given, "No account has been taken of the adequacy, efficiency, or economy of the general design of the system."

A I am speaking of the general design of the system, and if you will permit me I will explain just exactly what I mean in detail. This system grew, as Mr. Blackstock said, like Topsy. It was formed over a period of time with various sizes of lines put in. As a well came in they built an extension to the line and certain wells were connected later. That is, the period of connection might have extended from 1937 to 1943. For that reason the alignment of the pipe and the size of the pipe, the diameter, and the pressure requirements may not in all cases be exactly, may not be efficient, I will say that. You might have been able to design the system so as to reduce the size of pipes in some places, or you may have been required in an

efficient system to increase it in some cases. You might not have followed its exact alignment, and that is what I meant. I have not investigated the amount of flow through the lines, whether the lines were adequate for the purpose for which they were being considered.

Q No, and you may have one place where there was something where it might not be efficient. Let me ask you that, you get some places where it might not be efficient, and is there any discount some place in your figures where you took that into account?

A I stated that the system was generally useful from the fact it was being used at the time, and was adequate for the service which was required.

Q What I asked you was, is there any discount in any of your figures by reason of that particular inefficiency that you referred to a minute ago? Let us try to stick to a question and an answer?

A I did not.

THE CHAIRMAN: Isn't that implied in all his answers?

MR. FENERTY: I cannot get an answer, and I always keep on if I cannot get an answer.

A I did not object to any factors.

Q So that in any place where you can point to an inadequacy, inefficiency, a lack of economy, you did not reflect any of those things in your valuation?

A My value.....

Q You did not do it, did you? That is what I am asking you? Then I will go on to something else if you will answer it.

A I did not inject any factor in any adjustment for those factors, no.

Q And it follows then that you are putting a valuation here for the purpose of somebody paying for these things on exactly the same basis as if it was the most efficient plant in the world, that is right is it not?

A I do not that is necessarily true.

Q What is that?

A That is not necessarily true, because the material which has been charged in here was the actual material that is in the plant.

Q I mean, at the same cost of material as if it was the best material that could have been used in that at this price, that is right, isn't it?

A I charged only for the material that was put in there, yes.

Q Does that follow or not? And if you say no I will leave it to reason, just answer me anyhow, and I will sit down?

A No, I do not think it follows.

Q You do not think it follows?

A No.

Q All right, thank you.

.....

EXAMINATION BY DR. BOOMER.

Q You have given us as one of your assumptions in making your appraisal the basis that there is a willing buyer and a willing seller?

A Yes.

Q Now, if you have a willing buyer, that means a buyer who is willing to accept reproduction costs less observed depreciation, a buyer who is not interested in historical costs, investment value, the service value, the price of materials and labour in the past or in the future. Tell me, is that the basis on which

you made your appraisal?

A I think the buyer is interested in all those things.

Q Maybe you do not follow me. You, as I understand it, have stated that you used the reproduction costs as the basis of your appraisal, less observed depreciation as determined by you, and it is your opinion that it is a good appraisal, assuming a willing buyer and a willing seller. I want to know why, I want to know rather whether by a willing buyer you mean one who is willing to accept the basis you used in your appraisal and ignore all other factors?

A I think if you have a willing buyer who has need of this system that the value which I arrived at and the method used would be acceptable to him. Of course, he might take all these other things into consideration.

Q THE CHAIRMAN: And all your valuation is predicated on is that assumption of the willing buyer considering one thing only, reproduction new less observed depreciation. Your valuation is predicated on that, isn't it?

A My valuation is predicated on that theory, yes. Not necessarily from the buyer's viewpoint but from the seller's.

Q DR. BOOMER: Now you used the costs given in the Gentry contract. Let us assume that a local contractor, or the British American Company itself, or any other company in the Turner Valley, could put in pipe lines, and have put in pipe lines in the past, and have put pipe lines in in 1944 at less cost than the Gentry cost. By what reasoning did you arrive at your choice of using the Gentry costs instead of the normal local costs?

A I did not know of any lower costs and it appeared to me then and still does, that the Gentry contract is made in a business-

like way and represented probably the fairest measure of what reproduction costs would be.

Q Did you investigate other costs current in Turner Valley in 1944?

A No, I did not do that.

Q Would it alter your opinion as to your appraisal if it turned out that the Gentry costs were higher than normal local costs, that the Gentry contract was approved for the reason that they could do a particular job faster than could be done by local resources?

A No, I do not think it would, because this job would have to be, would have had to have been done under the same conditions.

Q No, no. The old system of the British American Company was not built that way?

A If you do not require the British American system, would not you require to construct another system of the same nature at this time and under these conditions?

Q No. We will assume that we are talking about the old British American system which is being purchased by the Utility company, that was built, relatively speaking, leisurely, and then if started from scratch in 1944 it would have been built last year, because if the system did not exist there would be no reason of or any reason for you of using the Gentry costs instead of local costs to put a value on that system?

A Well, as I have stated in my report, and I re-state, that in my opinion it represents the best evidence for construction costs. There might be an error as to that statement, which I have not investigated in the past records of construction. It is possible that I could be mistaken.

Q That is assuming local costs by local contractors and local companies were less than the Gentry costs you might consider a revision of your appraisal.

A If it were possible to reproduce this system at this time under local costs and material or labor, I think I would.

Q BY THE CHAIRMAN: Mr. Teis, as an eggineer and when you were employed by a gas company I suppose occasionally it was your duty to prepare estimates for some new construction that was going to be undertaken?

A I have done that, yes.

Q I suppose also that before any company undertakes new construction it wants to know what their costs of maintenance will be with relation to the ultimate object, that is one factor.

A They probably would, yes.

Q Would it be fair to say when you prepare your estimates you have amongst your items capital costs and maintenance costs?

A Yes, it is possible you might have a situation of that kind.

Q Yes, you naturally would want to know how much money is going into this construction. That is capital costs. Now is not labor for construction part of your capital costs as opposed to subsequent maintenance?

A I think you would capitalize the labor, yes.

Q Then would it be fair to say there are two methods used in discussing depreciation. One, the one you have used, observed depreciation which can be described as loss in value due to wear and tear, use, corrosion, elements and that sort of thing and would it be fair to say that the other depreciation is that which the Company's accountant uses and which is a factor applied so as to recover over a number of

years the capital cost?

A That is true, yes.

Q And that depreciation enters into your operating cost?

A Yes sir.

Q Now if all that is true, why then did you not depreciate the installation costs in this valuation and how are you going to recover that labor cost for your principals when you do not depreciate it?

A That is, as I view it, merely a matter of bookkeeping.

Q But, Mr. Teis, does it not have a very practical result that in the charges which you make to your client you include your depreciation so as to recover your capital investment?

A If you were attempting to charge off the investment in a certain length of time, of course you would take all costs that enter into the investment that has been capitalized but when you are determining the value of a Plant for sale and the possible value of it, I do not know that it necessarily follows.

Q Then, Mr. Teis, would it be proper for us if we should adopt your valuation and your method, would it be proper for us to disallow to the utility company any depreciation on the labor costs which are included in your valuation?

A No sir, I do not think you should disallow it because they have made a capital investment and you should let them charge it off. I think that all goes back to the book value and in my opinion that has very little bearing on the market value.

Q Now the rate of depreciation you have allowed is roughly 30 per cent on pipe and other materials, roughly 30 per cent.

A That is about right.

Q If the Board should come to the conclusion that installation, right-of-way, supervision, etc. should have been depreciated what rate should we fix for those items?

A I would not be in a position to say, I do not think.

Q Would it be any different to your 30 per cent on pipe and other materials?

A I think most certainly it would be much lower, because that depreciation factor represents deterioration in the material that occurred before it was ever put in the line, a portion of it.

Q Can you tell me how much lower, Mr. Teis, it should be?

A Well, I have no opinion on that.

Q You see we are looking for guidance, Mr. Teis.

A I do not believe any suggestion from me would be helpful to you. I have not attempted to determine such a factor.

Q I am a member of the bar. Dr. Boomer is a chemical engineer. Having been appointed as members of the Board does not suddenly endow us with some marvelous power of prescience which we did not have before and besides which we are supposed to determine these things on the evidence and I am looking for evidence if you can give it to me.

A I do not believe I can help you in that respect.

Q Does not that leave us in this position, if we decide the depreciation should be applied on that, the best evidence we have is your old factor of material, 30 per cent?

A No, I think that would be entirely in error because I have stated this depreciation factor which I was taking here, was as a result of observation and included depreciation which occurred . . . . .

Q Which is in the actual material?

A Yes, and occurred before it was put in the line.

Q But does not pipe in place acquire a different value because labor was applied to it than it had when it was merely pipe in a stack?

A I think that is true, yes, it has a utility value.

Q Does it not follow that your depreciation should apply to your labor even in the same ratio that you applied to your observation of the pipe itself?

A You are speaking of your depreciation after it is a utility and is in operation.

Q No, with respect to your valuation in order that we may arrive at a proper figure to include in this company's rate base.

A I do not think the depreciation as affedted by the value of that material has any bearing at all on the depreciation that would be applied in future on labor costs.

Q So that means this then, Mr. Teis, if I apprehend your answers properly, that if we accept your value then the consumer of natural gas in Turner Valley is to bear the total cost of the installation of this system although the British American Oil Company used it for 10 years in its operations. That is the practical effect, is it not?

A I do not think there is anything unfair in that. He is acquiring a system that is usable.

Q But that is the effect, is it not? That is the result?

A I think that would be true, yes.

Q BY DR. BOOMER: I would like to follow that for a moment, Mr. Teis. You have a piece of pipe in the ground and on that piece of pipe you find 30 per cent deterioration. Three tenths of its life has gone. It has got seven tenths of its life to go. We have to depreciate that seven tenths so far as the utility is concerned, write it off. Should we

not at the same time write off seven tenths of the cost of installation?

A I do not see any reason why you should.

Q The pipe has a useful life left of seven tenths of its original. Ditching and what not, the labor, surely it has only seven tenths left.

A The basis of depreciation that I have applied to this pipe in my opinion has absolutely no bearing at all on what course you should follow in setting up an amortization scheme after the utility is in operation.

Q Let me ask you this. You have estimated 30 per cent depreciation of that pipe as it stands today. Do you mean by that it has served three tenths of its life?

A The rate at which future depreciation will occur, of course, might be far different than what has happened in the past but in my opinion the system will last as long as it is needed and the amortization rate should take that into account. Not what occurred in the past.

Q I agree with you. But I am saying the amortization rate in the life of the system has to be such as to recover seven tenths of the cost of the pipe.

A That is right, yes.

Q You do not believe that the amortization rate should cover anything less than 100 per cent of the cost of installation?

A I think it should cover whatever you paid for the system when you took it into the utility. As to how these costs were arrived at, I do not think that has any bearing on the future amortization.

Q I agree the amortization rate will cover what you paid for that utility but we are discussing what will be paid for.

A The method by which I have arrived at this value, I have

stated. There may be other methods. I do not know that there are other methods. I think this is a fair method and it seemed to me to be an appropriate one and a somewhat simple one and that is why I used it.

Q If you were acting for a buyer would you pay 100 cents on the dollar on the installation costs?

A I would look at the price and if I thought the price was fair and I could use the system, and the fact that I was paying 100 per cent on the installation costs would not concern me particularly if I had to build a system anyway and I could get it for thirty thousand dollars less than I could build it, already constructed. I would recommend to a man that he buy it.

Q Would not you look at the revenue, the profit and loss statements?

A Not in connection with this particular unit as a whole. I think a man going into a utility business has to look at a lot of things.

Q BY THE CHAIRMAN: Mr. Teis, if you were valuing a piece of machinery which was set on a heavy concrete block, would you depreciate the machine alone or would you depreciate the machine and the concrete on which it stood? Would you apply any depreciation factor to the concrete block?

A That depends on the purpose of the depreciation.

Q Well let us take it right from what you are doing now, the principle upon which you are making this valuation, reproduction cost less depreciation, with a willing buyer and a willing seller, would you apply any depreciation factor to the concrete block on which the piece of machinery stands. Knowing well that when its purpose was served it was utterly useless for anything else. Would you apply a

depreciation factor to your concrete block?

A Well under the conditions that exist in relation to this problem, I do not think I would depreciate the concrete block because I would have to instal a new block to set the machine on and use it and buying the unit as a whole . . . .

Q Let us take a machine that was just installed three years ago, a machine that was going to be good for many years and so is the concrete block. Are you going to depreciate the machine and apply no factor to your concrete block?

A If I were making an appraisal of this type, it would be perfectly all right to ignore depreciation of the block.

Q Why?

A For the simple reason that the machine has to be on the block to be useful.

Q I am assuming that it is there.

A And I say if I were buying a machine for 30 per cent less than it cost and I have got it already set on the block, I would be willing to pay the man for the block if I were buying it and going to use it.

Q For what it cost?

A For what it cost, yes sir.

Q Supposing it cracks.

A Well that would be something else.

Q I mean concrete depreciates, does it not?

A Yes that is true. Your dit' ing and other items of cost in connection with this pipe line I do not think do.

Q Concrete starts to depreciate just as soon as its dry. It starts in right then. It takes a long time it is true.

A Concrete gets much stronger as it ages. It might crack.

Q The time comes when it starts to disintegrate too.

A That might come on when stress is imposed on it.

Q Is that why you did not depreciate the rights-of-way, because a right-of-way is a place where your pipe lies, just as your concrete is a place where your machine lies. That is a capital cost is it not, Mr. Teis?

A Yes, that is a capital cost.

Q Why don't you depreciate it then?

A Well I do not know how I can explain it more clearly than I have. I am sorry but I cannot.

Q Do you know whether these rights-of-way are in the form of an easement or whether they are in the form of freehold title?

A No, I do not know which they are.

Q Do you think it would make a difference in the value or the depreciation factor if they were one or the other?

A I do not think it makes any difference whether they own the land or whether they have a satisfactory contract permitting them to use it. I do not think it would be of much value at the end of its useful life.

Q At the end of the life of the line you have a mere easement and you can pick up your line and you are all through. If you have a freehold title you have a piece of property which is liable to taxes as long as you hold that title. You naturally go to the man who holds the land and you try to sell him your freehold title, 16½ feet wide, is that not right?

A I might be glad to give it to him under those circumstances.

Q It would cost you something to do that, would it not?

A It would cost something.

Q Again using your own principle of a willing buyer and a willing seller, reproduction costs new less depreciation, you also have a going concern actively transporting gas

immediately before, at the moment of the sale and after the sale, would you consider under those conditions that you might have added something for going value?

A I did not give any consideration to that either.

Q Would you agree it would not be a very proper thing to do?

A I would not think it would under those circumstances.

Q You talked to Mr. Fenerty about distribution of the costs of operating these lines. I presume you know that the Board will have to determine a rate base for this company, a rate base representing the used and useful capital invested. We will assume for the moment that we accept your valuation of $154,545.27 and we assume that we regard that as something that must go in the rate base. When we fix the price of gas we fix a price that will be sufficient to enable this company to operate, to meet its maintenance costs, to get interest on its investment and have its money back at the end of the life. You appreciate that in a public utility?

A Yes.

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Q But here you have a system which is carrying natural gasoline as well as natural gas, if we put another $154,545.27 in the rate base we will be making the Calgary consumer pay the total cost of that line although it is performing another service for another company, would you consider that to be proper?

A No.

Q No. Can you suggest any bases to me upon which we could apportion the capital costs as between the public utility and the transportation of the natural gasoline?

A Why I have not made a study of that situation and I do not think I can give you any figure which would be useful at all or of any value.

Q Well it is quite all right, Mr.Teis. You have agreed with me in principle that there should be some distribution of the capital costs as between the consumer of gas and the absorption plant?

A Well either that or some charge made for the service.

Q And that charge, of course, would be based upon.....

A The relative utility of the system to its particular use.

Q Or the capital which is allocated to the two services, and a charge for the transportation of natural gasoline based upon the same principle as the charge to the consumer in Calgary?

A That might be used, yes.

THE CHAIRMAN: Yes. Anything further, Mr. Harvie?

MR. HARVIE: I have some questions.

MR.BLANCHARD: Pardon me, I have one question to ask if I might first.

Q TO MR. BLANCHARD: You did not depreciate the labour costs because, as you say, the gathering lines will last for

the life of the field or the service?

A Well I do not know if I said that that was my reason for not depreciating it. I think it is true though they will last as long as they are needed.

Q Yes, and that is the basis of your valuation, that those gathering lines are efficient for the service they are to perform, that is to deliver, transmit gas, during the life of the field?

A Generally speaking, yes.

Q Then why did you depreciate the pipe?

A Why did I what?

Q Why did you depreciate the pipe?

A Because that, in my opinion, represents the value of the pipe. If a man went out here to buy the pipe that is the price he would have to pay for it.

Q TO MR.HARVIE: Mr.Teis, the Chairman, in discussing with you, the basis of your depreciation took a figure of 30% approximately, depreciation, applied to the material and the material being both pipe and other accessories do you know what a similar rate would be if applied to the over-all cost, have you figured that out?

THE CHAIRMAN: I can give it to you, Mr. Harvie, it is 16.6, done with a slide rule.

MR.HARVIE: I got 17% approximately.

WITNESS: We had 17½% there yesterday I think.

Q MR.HARVIE: Well, we will take a 16 or 17%, if it should be considered that depreciation should be taken on the overall costs, what would your comment be as to the fairness of that figure?

A I would think that that is a reasonable figure.

Q More so than the figure suggested by the Chairman?

A Oh yes, I would even.....

Q Were you present.....

Q THE CHAIRMAN: You would even what?

A I was starting to say that I would attempt to arrive at the, I think that figure represents the value that I put on the property, and if the depreciation factor were applied to all costs, that, I think, would represent about what I would apply it to.

Q MR.HARVIE: Were you present during any of the periods while the Gentry contractors were working in the field?

A They were doing work when I was out there last year.

Q Did you see their equipment?

A I saw some of it.

Q Was it efficient equipment?

A I think it was, yes, it looked so to me.

Q Do you know whether there was any other equipment as efficient in the field or available?

A No, I do not really know as to that.

Q Do you know whether or not the personnel that they brought up were trained personnel for this work?

A Well I had contacts with one or two of them, not to any great extent, but I presume they were. I do not know the character of the labour they imported.

Q Is your experience such or would you give me your views as to whether there is a considerable saving in installations of that nature when you are using efficient machinery and trained personnel such as here, as over against inefficient machinery and untrained personnel?

A Undoubtedly there would be a saving; there should be some saving also in the volume of the work; in this case it was quite a large volume of work.

Q And it might be that that would more than make up for the additional cost of bringing in these people, - have you any views to express on that?

A Oh, I do not know. I do not have any measure of the degree of efficiency which would result from that, but I think it would be material though.

Q Mr. Steer, in his cross-examination of you, brought out that you were aware of the fact that at the time of your valuation they proposed to sell these units to a wholly owned subsidiary of the parent company, and he stressed that you knew that to be the case, would you have changed your valuation if you had known it was to be sold to an entire stranger?

A I do not think that would have had any bearing on the value, no.

Q So you would value it on the same basis, whether it was sold to a stranger or a subsidiary of the parent company, and it was so valued by you?

A It was,yes.

Q I think you also felt that this unit, the high pressure gas gathering line, was useful for absorption plant operations, and that it was equally as useful for the over-all operation of gathering gas and bringing it to the absorption plant and taking care of what happened after that?

A I do not know that I quite understand, if I understand your question, Mr. Harvie.

Q I think you stated that the gathering system was useful for the absorption plant operation?

A Yes.

Q Is it not equally as useful for the gathering of gas for, we will say, the market or repressuring or any other purpose?

A Yes, it is.

Q And the same installation , so far as the absorption plant is concerned, is equally as efficient for both operations?

A That is true.

Q Now some mention has been made as to whether the pipe in the B. A. system has been treated, coated and wrapped, and I understood from your evidence that a portion of the pipe was bought from the Royalite and you found there was no wrapping on the pipe in the system?

A That is my recollection. I might be mistaken in that but generally speaking the pipe is not wrapped.

Q Now coating and wrapping pipe is an additional expense?

A Oh yes.

Q And as to the necessity and advisability of that, it is a matter of judgment as to whether that additional expense is justified?

A I think the experience which you had there in the field indicates that it is probably not economically justified.

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Q And do you consider that the pipe that was uncoated and unwrapped in the B-A system, was efficient for the use to which it was being put?

A Yes.

Q And for the life of the field?

A Yes.

TO THE CHAIRMAN.

Q THE CHAIRMAN: One thing I meant to ask you, Mr. Ties, and again we go back to rights-of-way, to supervisional and administrative costs, is it not the case that items of that kind should be written off at a much faster rate than these items whose lifetime can be accurately or reasonably accurately determined, these intangibles should be written off quickly; perhaps you do not know, Mr. Ties, and if so it is quite all right.

A I think that would depend on the purpose for which you were making the depreciation.

Q I may be wrong myself but I merely had that impression, that you write off intangibles very quickly.

A I was under the impression that you would write them all off so that you would end up with no capital investment at the time your assets, - at the end of the useful life of your assets.

Q I may be able to ask Mr. Donellan that question.

A He is an expert along those lines.

THE CHAIRMAN: Anything further from Mr. Ties?

MR. CHAMBERS: There is one question I would like to ask, there has been considerable talk throughout his evidence, not necessarily from him but by the questions as to the life of the field and I would just like to get it clear whether he is talking about the life of that particular

south end of the field or the entire field, because in the light of the evidence which has taken place earlier there may be some difference.

Q MR. CHAMBERS: When you were talking about the life of the field, just what have you in mind about that, Mr. Ties, 10 years, 15 years, 20 years?

A What I have in mind is just what I have learned from other persons' estimates. I have never made any estimates myself. I read Mr. Weymouth's report some time ago and I was somewhat under the impression that he places the life at 20 or 25 years or so and that is the idea I had in mind all along.

MR. CHAMBERS: That is what I wanted to get.

THE CHAIRMAN: Anything further, Mr. Harvie?

MR. HARVIE: Nothing.

THE CHAIRMAN: Thank you very much, Mr. Ties.

MR. HARVIE: Mr. Chairman, I believe the next submission by our company will be Volume 2 and by Mr. Donellan, and also the following Volume ; that is going to take a matter of some days and the arrangement as I understood it was that Mr. Baker would be interjected whenever he was available and I understand from Mr. Chambers he is to be available in the morning and I was just wondering whether it might not be more opportune to adjourn now and start with Mr. Baker rather than interrupt Mr. Donellan's evidence.

THE CHAIRMAN: Of course Mr. Donellan will be staying over. There is no hope of finishing his evidence tomorrow.

MR. HARVIE: Oh not at all.

THE CHAIRMAN: Well let us take up enough time to swear Mr. Donellan and qualify him and perhaps we might adjourn then so that the next time when he goes into the

box that part will be over with.

Mr. Chambers, you will be ready the first thing in the morning?

MR. CHAMBERS: The first thing in the morning.

THE CHAIRMAN: And can we finish with Mr. Baker tomorrow morning?

MR. CHAMBERS: It will depend on how much cross-examination there will be.

THE CHAIRMAN: There was a suggestion that we might sit on Thursday. I might mention if we do not finish Mr. Baker tomorrow morning, we are going to attempt to finish him tomorrow afternoon.

MR. CHAMBERS: That will be quite all right.

MR. STEER: In other words, the Board will sit tomorrow afternoon.

MR. BLANCHARD: May I speak to that?

THE CHAIRMAN: You have a trial, have you?

MR. BLANCHARD: Relying on the fact that we have not been sitting in the afternoon, I have to be at Turner Valley for an inquest and will have to leave here very shortly after one o'clock.

THE CHAIRMAN: All right, say no more, Mr. Blanchard.

MR. CHAMBERS: Before we swear Mr. Donellan, I want to speak about this exhibit 105 which was put in, I am prepared to have it typed or if Mr. Harvie will.

MR. HARVIE: Oh no, we will have it typed.

MR. STEER: Do I understand there will be no sittings on Thursday?

THE CHAIRMAN: Not if it can be avoided, Mr. Steer, but we have to finish this gentleman who comes from Winnipeg; however I hope if you prepare careful examinations and cross-

examinations during this afternoon, we might finish with him tomorrow morning.

MR. STEER: I have no doubt we can.

ROBERT DONELLAN, having been first duly sworn, examined by Mr. Harvie, testified as follows:

Q Mr. Donellan, you are chief accountant for the British American Oil Company Limited?

A I am.

Q At the Head Office in Toronto?

A I am.

Q And it was under your supervision that the submission presented as Volume 2, covering the capital expenditures and appraised valuations, dated February 15th, 1945 and supplement thereto, have been prepared?

A That is right.

Q How long have you been an employee of the British American Oil Company?

A Since 1930.

Q And prior to that?

A Prior to that I was, - well I got my degree as a Chartered Accountant immediately after the last war, becoming a member of the Institute of Chartered Accountants of Ontario in 1923. From 1923 to 1926 I was in practice. From 1926 to 1929 I was down in South America with the Brazilian Traction Company as accountant in the telephone section of their activities. I returned from Brazil in 1929, had a long vacation, and started operations with the British American Oil Company in July, 1930.

Q And you have been with them ever since?

A Ever since.

MR. HARVIE: And that might be a good place to adjourn.

MR. McDONALD: Is there a British American No. 4?

MR. HARVIE: Yes, that will be a supplementary one. It has already been filed as an exhibit.

(The Inquiry was here adjourned to be resumed at 9.30 A.M. September 12th, 1945.)

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